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## Testimony

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Committee on Rules  
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# BUDGET PROCESS

## Some Reforms Offer Promise

Statement of Susan J. Irving  
Associate Director, Budget Issues  
Accounting and Information Management Division



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Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss proposals to change the budget process contained in the Final Report of the House Members of the Joint Committee on the Organization of the Congress.

Certainly everyone involved in the budget process shares some frustration with it. The public finds it confusing. Executive branch agencies find the process burdensome and time-consuming. Members of the Congress say the annual budget process seems too lengthy, with its many votes on authorizations, the budget resolution, reconciliation, appropriations, and the debt limit. And, too often, the results are not what was expected or hoped for.

In one sense, nothing could be more important than debates about the budget. It is through the budget process that the Congress and the President reach agreement on the fiscal policy stance of the government--that is, the relationship between spending and revenues--and determine in what the federal government will be involved and in what way.

Because the decisions are so important, we expect a great deal from our budget and budget process. We want the budget to be clear and understandable. We want a process that presents the Congress and the American people with a framework needed to understand the significant choices and the information necessary

to make the best-informed decisions about federal tax and spending policy. This is not easy. The House Members' recommendations seek to streamline without sacrificing control and to increase the relevant information available to Members of Congress.

Although there is virtually universal agreement that the current process has problems, changes must be carefully considered. In fact, the current process is, in part, the cumulative result of many changes made to address previous problems. The challenge is to design solutions to existing problems without creating new ones. One strength of the House Members' report is that it seeks to consider the entire budget process as a whole rather than merely looking at individual pieces.

In May 1993 letters to the Chairmen and Ranking Minority Members of the House and Senate Budget Committees and House Government Operations Committee, we suggested possible changes to the current budget process. Also, last June, in a letter to the Joint Committee on the Organization of the Congress, we provided some ideas that could lead to a more streamlined budget process. Some of the changes proposed by the House Members of the Joint Committee, which I will discuss today, were included in those letters. My testimony addresses the House Members' recommendations related to

-- biennial budgeting,

- controls over tax expenditures and entitlement spending, and
- gross national product (GNP) budget analysis and fiscal and budget policy reports.

### BIENNIAL BUDGETING

Like the National Performance Review (NPR), the House Members of the Joint Committee propose to shift the entire budget cycle from annual to biennial. Under this system, the President would submit budgets every 2 years. Authorizations would be for 2 years or longer. Budget resolutions would be adopted every 2 years and appropriations enacted every 2 years.

We believe that this proposal need not be seen as an all-or-nothing proposal. Budget agreements, authorizations, budget resolutions, and appropriations need not cover the same time period. Multiyear fiscal policy agreements and multiyear authorizations make a great deal of sense, but they do not require changing the appropriations decision cycle from annual to biennial. While biennial appropriations could save time for agencies, they could result in a shift in congressional control and oversight. Proposals to change the process should be viewed partly in the context of their effect on the relative balance of power in this debate.

Multiyear Authorizations and Biennial Budget Resolutions Make Sense

We have previously supported the use of multiyear authorizations for federal programs. There seems little reason to reexamine and reauthorize programs more often than they might actually be changed. Furthermore, multiyear authorizations help both the Congress and the executive branch by providing a longer term perspective within which a program may operate and appropriations be determined. This is the normal practice for most of the non-defense portion of the budget.

We also agree that a 2-year budget resolution makes sense. In our earlier letter to the Joint Committee, we suggested that 2-year binding budget resolutions be used with 2-year reconciliation instructions. Since the Budget Enforcement Act (BEA), which focuses on a 5-year period, already sets the framework for congressional budget resolutions, the annual budget resolution has become less important. While changes in the world and difficulties in projecting budget estimates over long time periods would, from a practical standpoint, render 5-year binding budget resolutions not workable, 2-year binding budget resolutions could reduce the burden on the Congress and provide more stability for congressional committee planning. This change would still permit periodic revisions of budget totals and allocations without unduly binding future congresses or reducing

congressional oversight.

Traditionally, biennial budgeting has been advocated as a way to advance several objectives: to shift the allocation of agency officials' time from the preparation of budgets and justifications to improved financial management and analysis of program effectiveness; to reduce the time Members of Congress must spend on what feel like repetitive votes and hence permit increased oversight; to reduce uncertainty about longer-term funding levels and allocations and hence improve program management and results. Shifting the entire cycle--authorizations, budget resolutions, and appropriations--to a biennial one may not be necessary to achieve these objectives.

As I noted earlier, the question of biennial appropriations can be separated from biennial budget resolutions. The two raise some quite different questions. Let me turn now more specifically to that issue.

#### The Current Annual Appropriation Cycle Permits Flexible Periods of Fund Availability

In considering whether the federal government should shift to a biennial budget, it is important to recognize a very important distinction between how often budget decisions are made and how long the money provided for agency use is available. Biennial

budgeting proposals seek to change the frequency with which decisions are made--from annual budget decisions to biennial ones. Too often, however, the idea is discussed as though it were necessary to change the frequency of decisions in order to change the length of time funds are available.

However, as you know, this is a misconception. The federal budget today is not entirely made up of annually enacted appropriations of 1-year monies. Not all funds expire on September 30 of each year. Because budget decisions about mandatory programs and entitlements are not made on an annual basis, the debate about annual versus biennial appropriations deals with less than half of the budget. Annually enacted appropriations apply to that portion of the budget known as discretionary spending--about 39 percent of federal outlays in fiscal year 1993.

Even within that 39 percent of the budget on an annual budget cycle, not all appropriations were for 1-year funds. The Congress has routinely provided multiple-year or no-year appropriations for accounts or for projects within accounts when it seemed to make sense to do so. Indeed, about two-thirds of the accounts on an annual appropriation cycle contained some multiple-year or no-year funds. For these accounts, some prior year and/or current year authority was available for obligation beyond September 30, 1993, without further congressional action.

The federal government has had some experience with biennial budgets. The 1986 Defense Authorization Act directed the Department of Defense (DOD) to submit a biennial budget for fiscal years 1988 and 1989 and every 2 years thereafter. DOD submitted 2-year budgets for fiscal years 1988 and 1989, 1990 and 1991, and 1992 and 1993. However, the authorization committees have chosen not to approve a full 2-year budget, and thus the appropriation committees have not provided appropriations for the second year.

#### Potential Effects of Biennial Appropriations

For agency officials--both agency budget officers and program managers--the arguments for biennial budgeting may seem quite strong. Currently, agency budget officers spend several months every year preparing a "from the ground up" budget with voluminous written justifications. Much of this work is repetitious. In contrast, requests for supplemental appropriations are handled on an exception basis. Only those agencies requesting supplemental appropriations prepare and present justifications, and those justifications are less complex than for the annual budget. If, under a biennial appropriations process, the "off-year" updates, amendments, or adjustments were treated like supplemental appropriations, the savings in agency time could be significant, even if the Congress required--as seems reasonable--that agencies submit financial and spending



reports every year.

Would agency time and energy be shifted to improved financial management or better program evaluation? I suspect that would depend on the President, the agency's leadership, and on what the Congress demanded of the agencies.

For agency program managers, the interest in biennial budgets is slightly different. Although preparation and analysis for the annual budget preparation and submission process is time-consuming and burdensome, program managers are likely to have a greater interest in how long money is available for use. Especially in some programs, such as defense procurement and education programs, multiyear appropriations tend to smooth program functioning. However, as noted above, many of these programs already receive some multiyear funding. A shift of the entire cycle would ease planning and increase predictability for all program managers, but it is not necessary in order to provide multiyear or advance funding for those programs for which 1-year money seriously impairs program effectiveness.

Regardless of the potential benefits to agencies, the decision on biennial budgeting must depend on the Congress' choice about how it wishes to exercise its constitutional authority over appropriations and its oversight functions. Annually enacted appropriations have long been a basic means of exerting and

enforcing congressional policy. A 2-year appropriation cycle could lessen congressional influence or control over program and spending matters, largely because the process would afford fewer scheduled opportunities to affect agency programs and budgets.

#### BROADENING CONTROL OVER TAX EXPENDITURES AND DIRECT SPENDING

The House Members of the Joint Committee also propose to broaden congressional control over fiscal policy by seeking ways to gain better control over both tax expenditures and direct spending programs--usually known as entitlements or mandatories. The BEA took an important first step by requiring that in any fiscal year legislation affecting either revenues--including tax expenditures--or direct spending programs be deficit-neutral or deficit-reducing in the aggregate. However, BEA left unconstrained any growth in these areas resulting from the economy, demographics, or the actions of individuals. Overall, we think the proposals before you represent a good first step. Let me discuss each of these areas in turn.

#### Tax Expenditures

The House Members of the Joint Committee recommend adding information on tax expenditures to the concurrent budget resolution in an effort to subject tax expenditures to the same scrutiny as other expenditures in the budget. Their proposal

also calls for the budget resolution to specify the aggregate amount by which total tax expenditures are to be increased or decreased in the upcoming fiscal year due to policy action.

Tax expenditures are reductions in tax liabilities that result from preferential provisions in the tax code, such as exemptions and exclusions from taxation, deductions, credits, deferrals, and preferential tax rates. Substantial revenues are foregone as a result of tax expenditures--on the order of \$400 billion annually. At a time when the federal government faces hard choices so that the deficit can be reduced and available resources used wisely, no federal expenditure, whether it involves outlays or revenues foregone, should escape careful scrutiny. However, tax expenditures--unlike most spending programs--are rarely evaluated against their own objectives or related spending programs. They also remain largely beyond the reach of budgetary controls. Unlike appropriated programs, they are not considered part of the annual budget process, and most are not subject to periodic reauthorization. As a result, policymakers have little opportunity to make comparisons or trade-offs between these subsidies and related spending programs.

In light of these circumstances, we strongly agree with the intent of the House Members' recommendation to increase scrutiny over tax expenditures. If the Congress wishes to put tax expenditures on a more equal footing with outlays in the budget

process, incorporating information on tax expenditures into the budget resolution represents an important first step. In a report soon to be released to Congressman William J. Coyne, we explore and analyze this and other options to increase scrutiny and control over tax expenditures. As we will report, incorporating tax expenditures more fully into the budget process represents a feasible means through which greater control could be achieved. While technical problems and jurisdictional challenges could be significant, we believe that they are not insurmountable, depending on the value the Congress places on increased oversight and budgetary control.

#### Controls Over Direct (Entitlement) Spending

The House Members also recommended a process to better control direct spending (mandatory and entitlement programs not subject to annual appropriations). Their recommendation is similar to a provision in the House-passed version of the Omnibus Budget Reconciliation Act of 1993; it would require the administration to submit a report to the Congress specifying direct spending targets for fiscal years 1994 through 1997. Under the House Members' proposal, if the President's next budget shows that the targets were exceeded in the prior year or will be exceeded in the current or budget years, the administration must analyze the overage and recommend ways to deal with it, which may include doing nothing. The House Members' proposal also would require

the Congress to respond to the administration's recommendations in the concurrent budget resolution.

The importance of bringing existing direct spending under some budgetary control cannot be emphasized enough. The pay-as-you-go provisions of the BEA worked effectively to control the expansion of existing and the creation of new direct spending and tax expenditures. Even so, direct spending programs--which are not subject to budgetary caps or annual appropriations--have played an important role in the ongoing deficit problem. In fiscal year 1993, direct spending (excluding interest on the debt) accounted for nearly 48 percent of net federal outlays--up from about 29 percent in 1970.

As we stated in our May 1993 letter to the House and Senate Budget Committees and the House Government Operations Committee, an argument can be made for a process that prompts the Congress and the President to periodically look back and assess progress toward reducing the deficit. Such a process would be valuable because economic and technical factors driving direct spending program costs above anticipated levels have remained outside policymakers' control. By requiring a vote on whether to recoup all or some portion of these overages--or to accept responsibility for not doing so--the process outlined in the House Members' recommendation is a step in the right direction.

The Congress may wish to go further. For instance, direct spending may fall below projected levels--as it did this year. In such a situation, the Congress might want to lower future direct spending targets by an amount equal to all or part of this gain. This would permit unexpected progress to be used to reduce the deficit--and it would prevent unexpected progress in one year from being used to eliminate the need for action if programs grew by more than originally envisioned the next year.

#### GNP BUDGET ANALYSIS AND FISCAL AND BUDGET POLICY REPORTS

The House Members also make two recommendations intended to broaden the context in which budgets are presented and debated. The Council of Economic Advisers would be required to include a gross national product (GNP) analysis in the Economic Report of the President, and the President would be required to submit separate fiscal and budget policy reports containing longer-term projections and analyses than those contained in his budget submission. The GNP analysis would describe broad policy objectives for the economy and present a GNP budget showing how current national output would be affected by the pursuit of those objectives. The President would also be required to submit separate fiscal and budget policy reports to lay out long-term fiscal policy goals, 10-year budget projections, international comparisons of fiscal policy, and performance indicators. We have long argued that a longer time horizon is necessary in order

to link fiscal policy with broader goals for the performance of the U.S. economy. Although the specifics of what should be required in any given report are subject to debate, these proposals offer an interesting approach. We comment here on some of the benefits of these analyses.

### GNP Budget Analysis

The GNP budget proposal essentially calls for an analysis of our national resource allocations. Economist Herbert Stein has written extensively on this issue, which he calls "budgeting the GNP." He has argued that focusing solely on federal revenues and spending is too narrow. Instead, he suggests that the first step in federal budgeting should be to consider how national resources should be allocated. In his view, federal decisions on spending, taxing, and regulation should then be pursued with an eye to supporting these broad economic goals. The U.S. economy is a mix of both the public and the private sectors. Under Dr. Stein's approach, the question of who in this mixed economy--the federal government, state and local governments, or the private sector--should finance investment or consumption in particular areas of the economy would be a separate question.

If the Congress chooses to adopt this provision, we would suggest one technical but important change--that the requirement be for a

GDP (gross domestic product)<sup>1</sup> analysis rather than a GNP analysis. This would be consistent with the fact that in 1991 the United States joined the rest of the industrialized world in shifting its focus from GNP to GDP. Since other industrialized nations use GDP data, international comparisons will be easier if our national resource budgeting effort also uses GDP.

The GDP budgeting concept can be a useful budgeting tool because it broadens the debate beyond federal revenue and spending policies by including information on the allocation of total GDP. In a mixed economy, national goals are achieved both through federal tax or spending programs and other policy actions such as regulation and through the action of the state government, local government, and private sectors. Federal policy decisions affect the behavior of individuals, private entities, and state and local governments. The country achieves its national objectives through the use of all economic resources, not just those allocated through the federal budget process. Considering all sectors of the economy when developing federal tax and expenditure policies could help budget decisionmakers achieve desired economic outcomes.

Examining aggregate economic data for the United States in the GDP budgeting context and using international comparisons can

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<sup>1</sup>GDP is the value of goods and services produced within the United States and differs only slightly from GNP, the value of goods and services produced by residents of the United States.



provide an improved sense of the U.S.'s relative priorities. It also may help focus budget policy debate on the allocation of total GDP, not just on that part which is controlled directly by the federal government.

Using aggregate economic data for GDP budgeting does have drawbacks. Implementing such an approach would require a more detailed understanding of the underpinnings of economic allocations than could be determined from aggregate data, and much more should be known about the effects of federal policy decisions on macroeconomic allocations. Aggregate data, moreover, does not capture the outcomes attained for the resources that have been allocated. However, it can provide a context for assessing trends in the United States as well as lead to better targeting of federal policies for constructive economic results. The current debate over health care reform has brought such comparisons to public attention and has allowed the debate to focus not only on the federal cost but also on the total cost of health care to the economy.

#### Fiscal Policy Reports

In previous reports and testimonies we have argued that, to build the foundation for a more productive nation, the budget process must focus more directly on long-range aggregate fiscal policy. We are pleased, therefore, that the House Members have

recommended a requirement for the President to regularly report on his long-term fiscal policy goals. Such reports could represent a significant step toward a more purposeful fiscal policy.

We believe that, at the macroeconomic level, the budget should provide a long-term framework for moving away from deficits. However, the budget planning horizon has not extended past 5 years, nor has it been grounded upon a linkage of fiscal policy with the long-term economic outlook. Budgeting for long-term economic growth should become a central feature of the federal budget process, requiring a much longer-term planning horizon than is now in place and demanding a focus both on aggregate fiscal policy and on the composition of federal activity.

Although the multiyear focus of BEA, as amended, represents improvement in this regard, planning for longer-range economic goals will require exploring the implications of fiscal policy for as much as 30 years or more into the future. This is not to say that detailed budget projections could reliably be made over a longer time horizon. Nevertheless, a BEA-like process of 5-year budget agreements might be most successfully implemented if done so in the context of general agreement on a 20-to-30 year fiscal policy path. Although this sounds quite unrealistic, commitments to long-term goals are not alien to American society. The interstate highway program took a generation to plan and

complete. The Social Security system was structured with long time horizons in mind and periodic modifications have been made in the context of those time horizons. Sometimes steps to reduce future spending are best made early to permit adjustment as changes are phased in. The argument for a longer-term focus is not an argument to delay action or stretch out deficit reduction; rather, it is an argument to take actions today cognizant of their likely long-term impacts.

We note that the House Members propose to have the President report on the experience of other nations with an eye to having the President and the Congress consider their relevance. According to the Organization for Economic Cooperation and Development, several other industrialized democracies have taken actions to eliminate their fiscal deficits in the 1980s, some of them in response to serious economic pressures, others simply to forestall future pressures. We share the Members' belief that the United States can learn from the fiscal policies and strategies of other nations.

### CONCLUSIONS

Mr. Chairman, the House Members of the Joint Committee on the Organization of the Congress have offered a number of proposals to increase and improve the information available to Members of Congress during the budget debate and to change the budget

process itself.

The proposal to incorporate tax expenditures into the budget resolution is the first step toward putting tax expenditures on a more equal footing with outlays in the budget process. Technical problems and jurisdictional challenges are likely to arise, but these could be dealt with if the Congress seriously wants to increase its oversight and budgetary control.

The proposed process for the President and the Congress to periodically look back and assess actual direct spending against anticipated levels and decide whether or not to take action would be valuable. Economic and technical factors driving direct spending above anticipated levels are outside policymakers' control. By requiring the Congress and the administration to make an explicit decision to take action--or to accept the slippage--the proposal would improve the current process.

Consideration of national resource allocations as embodied in the House Members' GNP budgeting proposal would be a valuable addition to the various methods policymakers use to assess federal spending priorities. But, instead of focusing on GNP as proposed, we would suggest using GDP to be in step with the rest of the industrialized nations.

The proposed fiscal policy reports could help the budget process

to focus more directly on long-range aggregate fiscal policy. Such a focus is necessary to build the foundation for a more productive nation. Planning for long-range economic goals requires exploring the effects of fiscal policy for as much as 30 years into the future.

Finally, we support the portions of the House Members' biennial budgeting proposal related to multiyear authorizations and biennial budget resolutions. We believe that multiyear fiscal policy agreements and multiyear authorizations make a great deal of sense, but they do not require changing the appropriations decision cycle from annual to biennial.

While biennial appropriations could save time for agencies, they could result in a shift in congressional control and oversight. Proposals to change the process should be viewed partly in the context of their effect on the relative balance of power in this debate.

While budgeting always involves forecasting (an inherently uncertain business), the longer the period of the forecast, the greater the uncertainty. Dramatic changes in program design or agency structure, such as the Congress is considering in many areas, will make budget forecasting more difficult. Moving from an annual to a biennial appropriations cycle at the same time may not be wise, given that the program changes are likely to create

the need for major budgeting changes in the second year of a biennium. If this happens, biennial budgeting would exist only in theory.

Biennial appropriations would be neither the end of congressional control nor the solution to many budget problems. The questions for the Congress are, how does it wish to exercise its constitutional authority over appropriations and in what forum will it conduct its oversight responsibilities?

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Mr. Chairman, this concludes my prepared remarks. I would be happy to answer any questions you or Members of the Subcommittee may have at this time.

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